

Message Text

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43

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 COME-00 TRSE-00 OPIC-06 AID-05

CIAE-00 INR-07 NSAE-00 RSC-01 /039 W

----- 023922

R 241110Z JAN 75

FM AMCONSUL MILAN

TO SECSTATE WASHDC 3891

INFO AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS MILAN 0164

E.O. 11652: N/A

TAGS: ECON IT

SUBJECT: ECONOMIC SITUATION

REF: MILAN A-75, 12/27/74

1. CONSULATE STAFF OBSERVED MILAN CAMERA DI COMMERCIO MEETING JANUARY 21 ON PERFORMANCE IN 1974 AND PROSPECTS 1975 OF ITALIAN ECONOMY WITH EMPHASIS ON LOMBARDY. THIS QUARTERLY MEETING IN WHICH SOME TWENTY OR SO REPRESENTATIVES OF INDUSTRY, BANKING AND COMMERCE PRESENTED CONCISE SECTORAL DATA. IN VIEW APOCALYPTIC TONE OF PRESS REPORTING OF ITALIAN ECONOMIC SITUATION, BELIEVE DEPT. SHOULD HAVE SUBSTANCE WITHOUT DELAY. DETAILED AIRGRAM FOLLOWS.

2. FOR ALMOST ALL SECTORS, 1974 WAS "BOOM" YEAR THROUGH JULY. DROP IN DOMESTIC DEMAND BEGAN AFTER AUGUST HOLIDAYS AND WORSENEED THROUGH END OF YEAR. EXPORTS LIMITED BY RESTRICTIONS ON AND EXPENSE OF EXPORT FINANCING AND IN SOME CASES BY LIMITED PRODUCTIVE CAPACITY (STEEL TUBING IN PARTICULAR).

3. ALL SPEAKERS WERE CAUTIOUS ABOUT PROSPECTS FOR 1975 BUT ONLY SECTORS TO FORECAST ACTUALLY BAD YEAR WERE BUILDING, AUTOMOBILES, FURNITURE AND HOUSEHOLD APPLIANCES. TEXTILES
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AND AGRICULTURE NOT REPRESENTED. CONSENSUS WAS THAT FIRST

FEW MONTHS OF 1975 WILL BE WORST MONTHS OF YEAR. DURING THIS PERIOD EXCESSIVE STOCKS BUILT UP DURING 1974 WILL BE IN PROCESS OF LIQUIDATION AND NO ONE WILL BE PLACING ORDERS BECAUSE OF UNCERTAINTY OF SITUATION. SOME SIGNS ALREADY APPEARING, HOWEVER, THAT STOCK LIQUIDATION NEARING COMPLETION AND THAT RENEWAL OF ORDERS WILL START IN NEAR FUTURE. IN CASE OF STEEL, EXPECT EXPAND PRODUCTION (HIGH QUALITY STEELS) BY SOME 10 0/0 AND EXPORTS BY WELL OVER 50 0/0.

4. MEETING CONFIRMED ITALIAN EXPORT POTENTIAL STILL VERY GOOD AND THAT PRODUCTIVE CAPACITY RELEASED BY RETURN OF DOMESTIC DEMAND TO 1973 LEVEL WIKL BE DIVERTED TO EXPORT MARKET. CREDIT SQUEEZE EVIDENTLY WAS A MAJOR DISADVANTAGE FOR EXPORTERS WHICH SHOULD BE EASED THIS YEAR.

5. CONSENSUS WAS THAT LIQUIDITY IN SYSTEM NOW GREATER ALTHOUGH THERE WAS UNCERTAINTY ABOUT HOW MUCH OF THIS DUE SHIFTING OF DEMAND CURVE RATHER THAN SUPPLY CURVE. STOCK LIQUIDATION OBVIOUSLY A FACTOR.

6. IN SHORT, PICTURE WE RECEIVED IS THAT ITALIAN DOMESTIC DEMAND MUSHROOMED IN 1973 AND PARTICULARLY IN HYPERINFLATIONARY PERIOD OF 1974 PULLING AN EXPANSION OF PRODUCTIVE CAPACITY IN ITS TRAIN. NOW, WITH DOMESTIC DEMAND FALLING BACK TO EARLIER LEVELS, INDUSTRY FACED WITH NEED TO FIND OUTLET FOR EXCESS CAPACITY. UNLESS GENERAL INTERNATIONAL ECONOMIC COLAPSE OCCURS, SPEAKERS GENERALLY AGREED ITALY WILL BE ABLE INCREASE EXPORTS SUFFICIENTLY TO TAKE UP SLACK. WHILE THIS DOES NO MORE THAN CONFIRM ALREADY FAMILIAR OUTLINES OF SITUATION (REF, FOR EXAMPLE), CONSULATE IMPRESSED -AS WAS CAMERA PRESIDENT- AT CAUTIOUS BUT RATHER STRONG OPTIMISM OF ALMOST ALL SECTOR REPRESENTATIVES.

7. THIS CAUTIOUSLY POSITIVE PICTURE CONFIRMS CONTINUING IMPRESSIONS RECEIVED FROM INDIVIDUAL LOCAL BANKERS AND BUSINESSMEN WHO REPORT BUSINESS STILL REMARKABLY GOOD. WORTH NOTING HOWEVER, THAT PICTURE IN VENICE AREA MARKEDLY WORSE SINCE AUGUST VACATION ALTHOUGH PETROCHEMICAL INDUSTRY STILL BOOMING.FINA
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, MEETINGS, SUMMARIES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MILAN00164
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750027-0364
From: MILAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750123/aaaaauch.tel
Line Count: 107
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 MILAN A-75, 75 12/27/74
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by RuthemTJ>; APPROVED <07 JAN 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC SITUATION
TAGS: ECON, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006